

Realty Stock Review

August 12, 1988 (Priced Aug. 11)

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Leaseback REIT & MLP Group Review

REALTY STOCK INVESTORS SHOULD STAY COOL WHILE INTEREST RATES CONTINUE TO SIZZLE

The Federal Reserve's Aug. 9 inflation-fighting shocker isn't the last. We expect interest rates to ratchet up once more before the year's out.

Alarmed by the surprise discount rate increase to 6.5% (the first since before you-know-when), traders sucked 110 points from the Dow Industrials in six trading days. But while the broad averages are down 3.5%, REITs and other realty stocks dropped just 1.5%-2.5%.

Premium prices will go to stocks in good real estate operators. Companies that hold and add value to properties through new development and creative renovations will thrive on tighter vacancy and higher rents. In this category we put most seasoned REITs plus investment builders like Koger Properties Inc., Rouse, and Forest City.

Rising rates are especially worrisome for the high-yielding stocks reviewed in this issue. The eight master limited partnerships (MLPs) reviewed average 11.6% and the four REITs paying dividends yield 9.2%. In a rising rate

climate, high payouts should provide some downside cushion.

In addition to yield, property type aids in stock selection. In this issue we look at two regional mall MLPs that hold solid properties being improved: **Shopco Laurel Center L.P.** and **Equitable Real Estate Shopping Centers.**

Passive collectors of real estate can't hack it in this kind of a market. Finding good properties to buy is already a problem and will get worse. Buying and holding, but not materially improving, property will prove tough strategy during the coming year.

We're already seeing a shake-out among the passive buyers. **One Liberty Properties** (see P. 4) is proposing to liquidate. OLP was crafted by Merrill Lynch & Co. to serve needs of an investment banking client and ended up with 40 net leased Firestone stores. Other passive buyers looking to liquidate are **Americana Realty** and **MONY Real Estate Investors**. **California REIT** may merge.

The rate hike interfered with **Koger Equities Inc.**'s big plan to raise \$250 mil. by going public (RSR, July 22). The Aug. 10 market collapse forced KE to boost the expected dividend yield an extra half-point to 9%.

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PUBLISHED TWICE MONTHLY ON THE SECOND AND FOURTH FRIDAYS: SUBSCRIPTION \$264 ANNUALLY GROUP RATES ON REQUEST

CALIFORNIA JOCKEY CLUB

\$17.63 (CJ-ASE) Div.\$1.00 Yld.5.7%
5.75 mil. sh. RANK B

CJ pairs a REIT, California Jockey, and a Calif. racetrack operator, Bay Meadows Operating Co. Structured like Santa Anita and Hollywood Park, CJ owns the Bay Meadows Racetrack in San Mateo, Cal. about 20 miles south of San Francisco, and leases it to Operating Co. for racing purposes. A 40-acre training track is being converted into multi-use.

Gut Issue: When will CJ's long-delayed realty development begin producing? CJ began planning to redevelop its training track in 1984 but San Mateo city put the plan on a slow track by including it in a larger master-planned area. That master planning is now nearly complete, giving CJ preliminary okay for 300 apartments, a 350-room hotel, and office/commercial complex. While detailed plans still must be approved, some work could begin in 1989.

Still undetermined is whether CJ will undertake the project as an owner/-developer, joint venturer or land lessor. The long delay may help CJ by letting it hit a stronger space market.

Meantime CJ continues to expand profits at Bay Meadow track, which is allotted 22 weeks of thoroughbred racing in both 1988 and 1989, vs. 20 weeks previously. CJ finished a \$2.4 mil. clubhouse and grandstand refurbishment in 1987 to reverse declining on-track attendance. Simulcasting of races to other locations, begun in 1985, has offset most of this erosion.

Advice: Hold; stock shouldn't be dynamic until development work begins.

EPS/Dividends - A (Dec. yrs.):

Yr.	Op.EPS	Div.	Price*	Yld.	Range
1984...	\$0.63a	\$0.45	12'4-10'2	4.4-3.6	
1985....	0.85	0.63	27'4-12'4	5.0-2.3	
1986....	0.82	0.90	27'4-19'2	4.7-3.3	
1987....	0.95	1.00	22'5-15'3	6.5-4.4	
1988E...	1.00	1.00	19'6-15'5	6.4-5.1z	

5 Yr.Gr.+12.2% 22.1% *Hi-Lo in 8ths

a-- Acctg. chng. '84-.23. z-To date.

Financial Measures - B: CJ has no debt and \$26.9 mil. equity at Mar. 31 equals \$4.68/sh., including \$2.90/sh. cash. Marilyn Gunderson, CJ Secretary, is largest holder with 3.8%. (KDC)

Address: 2121 S. El Camino Real, San Mateo, Cal. 94403. (415) 349-2562.

CLEVETRUST REALTY INVESTORS

\$8.25 (CTRIS-OTC) Div. None Yld.0.0%
1.94 mil. sh. RANK C

An older equity REIT, CTRIS has been hurt by soft Oil Patch office markets; the dividend was omitted in March.

Gut issue: If things are so bad, why are two large shareholders boosting their stakes? Since we signalled this accumulation last spring (RSR, April 22), both holders have upped positions:

National Financial Realty Trust, a smaller Louisville based REIT, now owns 20.0% (389,318 shs.) at average \$12.12/sh., or total \$4.7 mil. invested.

Chairman James M. Carney Sr., a Cleveland attorney, now owns 11.9% (234,092 shs.) at \$11.68/sh.

NatFin hasn't reported any buying since April 20, a week before CTRIS omitted payout. Omission has to hurt since NatFin borrowed most of its stake at 0.5% over prime, pledging assets.

CTRIS meantime has turned more aggressive in efforts to lease office space, especially in overbuilt Dallas. It is processing leases for 40,000 sq.ft. at 100,000 sq.ft. Office Alpha, Dallas -- but at lowball \$6-\$7/SF rates that will cover maintenance and produce minimal cash flow. Similar strategies are being pursued for vacancies in Tulsa (114,000 SF) and in Denver (276,000 SF in three buildings which are well leased, with banks as anchors). But while occupancies are good in Denver, renewal rates are comparable to Dallas.

Bottom line: CTRIS had 9¢ positive CFS in June and 3¢ in March, when the dividend was passed. That means CTRIS isn't a wipeout -- and the likely reason for continuing big buyer interest.

Advice: We think you can bottom fish here to play for an Oil Patch turn.

EPS/CFS/Dividends - C (Sept. yrs.):

Yr.	Op.EPS	CFS	Div.	Price*	Yld.	Range
1984.	\$1.12a	1.54	1.43	16'4-14'0	10-8.7	
1985..	0.73a	.82	1.76	20'6-15'5	11-8.5	
1986..	(0.36)a	.26	2.00	19'0-11'6	17-10	
1987..	(0.33)a	.35	1.20	13'6- 9'2	13- 9	
1988E..	(.80)	.15	.00	12'6- 7'0	0-0 z	

5 Yr.Gr. + NM% NM% *Hi-Lo in 8ths

a--Sale gain: '84-.17; '85-1.99; '86-0.44; '87-.69. z-To date. (KDC)

Debt of \$36.5 mil. is 1.7 times equity. **Address:** 1020 Ohio Savings Plaza, Cleveland, OH 44114. (216) 621-3366.

HEALTH CARE PROPERTY INVESTORS INC.

\$25.13 (HCP-NYSE) Div. \$2.66 Yld. 10.6%
8.16 mil. sh. RANK B

The first of the 1980's health care REITs, HCP has led with these firsts:

--First to buy properties net leased to third-party operators, ending any fear it would be a passive off-balance sheet financier for its sponsor.

--First to move toward a portfolio diversified by property types.

--And first to become internally administered by ending all official ties to sponsor Nat. Medical Enter. (NME).

Gut Issue: Can HCP avoid the pitfalls now surfacing in health care?

Like the mortgage REITs of the 1970s, health care REITs thrive on positive leverage and spread. If assets become nonearning, spread vanishes and leverage becomes an albatross. Example: Beverly Investment Properties, another major health care REIT, pared payout 32% last week to \$1.60 annual rate under bank pressure following massive losses at its sponsor, Beverly Enter. (RSR, June 24). BIP will be smaller, less leveraged.

HCP has just dodged one bullet: a small private nursing home operator, Columbia Corp. of Nashville, ended leases on eight facilities and later went belly up. HCP has re-leased three facilities, is completing new leases on three others, and working on the last two. HCP took over Columbia's security, a \$2.5 mil. letter of credit, and stands to lose no more than 5¢ sh. at most.

HCP is well financed against rising rates: it sold \$75 mil. notes at 9.875% in Feb. and has no floating rate debt.

Advice: Hold/buy. Yielding about 1.5% over 10-year Treasuries, HCP has strong value but higher rates could restrain share price near-term.

EPS/CFS/Dividends - A (Dec. yrs.):

Yr.	Op.EPS	CFS	Div.	Price*	Yld.	Range
1985.	\$1.04a	1.31	\$.73	23'4-19'0	4-	3%
1986..	1.79	2.50	2.30	31'2-20'2	11-	7
1987..	1.74	2.70	2.46	31'3-21'6	11-	8
1988E.	1.85	2.90	2.66	28'2-23'5	11-	9z

3 Yr.Gr. +7.7% +7.5% *Hi-Lo in 8ths
a-Seven months. z-To date.

Financing: Debt of \$153.5 mil. is 1.0 times \$158.5 mil. equity, or \$19.42/sh. NME owns 5.8% of shs. (KDC)

Address: 10990 Wilshire, St. 1200, Los Angeles, CA 90024. (213) 473-1990.

HOLLYWOOD PARK COMPANIES

\$19.50 (HTRFZ-OTC) Div. None Yld. 0.0%
3.96 mil. sh. RANK C

HTRFZ has run into massive problems trying to dismount from an ill-fated stab at realty development. Banks have forced dividend omission. All this is bitter for holders who bet that this old-line Los Angeles racetrack, now structured into a paired REIT and track operator, could pull off its parlay.

Gut Issue: How long before HTRFZ can sell its Los Alamitos track development land and repay debt? In 1984, HTRFZ rode forth from its comfortable track location south of downtown Los Angeles and bought 100-acre Los Alamitos racetrack in neighboring Orange County for \$60.7 mil. It planned to rezone surplus land at the site and either develop or resell the upgraded land.

But residents in the City of Cypress stalled rezoning and forced HTRFZ into court. HTRFZ won an important court test in March (being appealed) and in May signed a letter of intent to sell the track and undeveloped land to SDC Development L.P for \$100 mil., a deal still pending.

HTRFZ borrowed \$60.6 mil. to buy Los Alamitos, and as rezoning stalled, lenders at Wells Fargo Bank upped the rate to 5% over prime, forced HTRFZ to half dividends, and got HTRFZ's largest shareholder, Operating Co. Chrm. Marjorie Everett, to guarantee \$5.3 mil. bank loans. Wells cut the loan's interest rate last week (by an unstated amount) and extended term to June 1989.

The interest meter has plunged HTRFZ into the red, by \$1.59/sh. in 1987 and 90¢ in the Mar. qtr. Expect no change till Los Alamitos is resolved.

Advice: Avoid or hold. Despite recent events, shares are speculative.

EPS/Dividends - C (Dec. yrs.):

Yr.	Op.EPS	Div.	Price*	Yld.	Range
1984..	\$2.10	\$1.55	30'4-18'4	8.4-	5.1
1985...	1.32	1.55	24'4, 19'2	8.1-	6.3
1986...	0.88	1.55	28'4-20'0	7.8-	5.4
1987..	(1.59)	0.77	31'0-14'0	5.5-	2.5
1988E. d		0.00	27'4-14'4	0 -	0z

5 Yr.Gr. NM% *Hi-Lo in 8ths. z-To date.

Finances: \$116 mil. debt is 7.4 times \$15.7 mil. equity, or \$3.96/sh.

Address: Box 50332, Pasadena, CA 91105. (213) 627-8145. (KDC)

ONE LIBERTY PROPERTIES INC.

\$15.75 (OLP:ASE) Div. \$1.40 Yld. 8.9%
2.20 mil. sh. **RANK B**

OLP will propose liquidating after having evaluated options for obtaining unrealized value. OLP has received a dozen proposals and soon hopes to put something concrete to shareholders.

Gut Issue: What will OLP shares be worth in liquidation? In Apr. 1988 Gould Investors L.P. (GLP:ASE) disclosed a 9.8% stake in OLP. GPL chairman Fred Gould since raised GLP's stake in OLP to 11% and is reported to see OLP's value approaching \$18.50 per share. We think this figure is not far off the mark.

OLP's 40 Firestone retail stores were acquired in 1983 for \$20.43 mil. in aggregate (\$9.27/sh.). OLP got a pro forma appreciation premium on the properties when AA-rated Bridgestone Corp. acquired most of its rival's operations. Using a cap rate of 9%, base rents value at \$13.21/sh. Approx. 2/3 of the properties are currently producing percentage rents. Capitalized at 9%, Mar. qtr. overages (annualized) value at \$0.21/sh., bringing total to \$13.42/sh.

In the June and Sept. quarters of 1987 OLP added a Kroger supermarket and 11 Payless shoe stores under net lease to May Department Stores Co. at an aggregate \$5.5 mil. cost (\$2.50/sh.). The properties add approx. \$600,000 per year in minimum rentals, worth \$3.04/sh. capitalized at 9%. And OLP has approx. \$2.50/sh. of cash and equivalents. All this tabulates to about \$18.96/sh.

Advice: Buy shares for about 15-20% total return on one year liquidation. With no debt to wrangle with, the biggest threat to OLP's liquidation is rising interest rates.

EPS/CFS/Dividends - C (Dec. yrs.):

Yr.	EPS	CFS	Div.	Price*	Yld.	Range
1984A.	\$1.46	\$1.71	\$1.69	15'0-12'4	14-11%	
1985A.	1.37	1.62	1.72	16'0-13'3	13-11	
1986A.	1.36	1.60	1.72	18'1-14'3	12-9	
1987A.	1.24	1.42	1.34	17'3-10'1	13-8	
1988E.	1.25	1.50	1.40	16'4-11'0	13-8z	
5Yr. Gr.	-3.2%	-4.6%	*Hi-Lo	in 8ths		

Finances - A: OLP has no debt and \$29.61 mil. or \$13.44/sh. of equity. Depreciation equals 84¢ sh. z-To date.
Address: C/O Secured Realty Mgmt. Corp., 515 Madison Ave., New York, NY 10022. (212) 935-0931. (MJH)

UNIVERSAL HEALTH REALTY INCOME TRUST

\$11.75 (UHT:NYSE) Div. \$1.36 Yld. 11.6%
7.27 mil. sh. **RANK A**

UHT, a health care REIT sponsored by Universal Health Services, Inc. (UHSIB:OTC), began operations Dec. 1986 by acquiring ten facilities from UHS valued at \$122 mil.

Gut Issue: How will UHT finance its commitments in rising rate environment? UHT finances facilities with a \$40 mil. variable bank line at about 1% over C.D. rates (including charge on unused portions). UHT uses interest rate swaps to fix costs, but is exploring the use of fixed-rate debt. The big hang-up is a lack of facilities to invest the large pool of funds raised from any financing.

In Mar. 1988 UHT acquired the 118-bed, De La Ronde acute care hospital in Chalmette, LA, for approx. \$9.5 mil or \$80,508/bed. UHT's ten initial facilities from UHS are: Seven acute care hospitals with 990 beds acquired for \$108,375/bed and three psychiatric hospitals with 217 beds acquired for \$64,000/bed. The De La Ronde purchase was financed with a 7-5/8% term note that was rolled-over into bank debt in May, after UHT increased its bank line.

In June '88 UHT committed to provide up to \$7.9 mil. to finance a 60-bed freestanding rehabilitation hospital in Evansville, IN, and will purchase the facility when completed in mid-'89. UHT used bank line funding. UHT also committed to provide up to \$13 mil. of first mortgage financing for Lake Shore Hospital, a 3 year old, 75% occupied, 90-bed acute care psychiatric facility, located in Manchester, NH. Funding has not yet been secured.

Advice: Buy/Hold shares for high current yield. Low debt and interest swaps protects UHT from rising interest rates but holds back leveraged returns.

OpEPS/OpCFS/Div. - A (Dec. yrs.):

Year	EPS	CFS	Div.	Price*	Yld.	Range
1986A.	0.02	NM	0.00	10'6-10'1	0-0%	
1987A.	1.05	1.37	1.33	11'5-8'2	16-11	
1988E.	1.18	1.58	1.42	12'0-9'2	z15-12	
2Yr. Gr.	+15.3%	+6.8%	*Hi-Lo	in 8ths		
*Hi-Lo in 8ths. z-To date.						

Finances - A: \$34.3 mil. debt is 0.36x \$96.4 mil. equity or \$13.26/sh.
Address: 367 S. Gulph Rd., King of Prussia, Pa. 19406. (215) 265-0688. (MJH)

AMERICAN INCOME PROPERTIES L.P.

\$14.63 (IPS-ASE) Div. \$1.40 Yld. 9.6%
2.00 mil. units. **RANK B**

IPS' focus is buying shopping centers anchored by Wal-mart stores in the South and Midwest. IPS raised \$40 mil. by offering 2.0 mil. units of limited partnership interests at \$20 in 8/87.

Gut Issue: How soon will IPS be able to support its distribution without using offer proceeds? Cash flow is currently just short of covering the minimum cash distribution anticipated in IPS's initial offer. But as new investments boost returns over money market rates on IPS' unused cash, IPS should easily cover its distribution.

IPS purchased its fifth Wal-mart anchored center in Apr. '88. IPS acquired the 141,072 SF Shenandoah Plaza in Newnan, Ga (SW of Atlanta) for approx. \$47.46/SF. Shenandoah Plaza is about 95% leased. IPS is looking for a sixth center to purchase with the approx. \$5 mil. remaining from the initial offer and expects to do so before year-end. The new centers should add about \$0.02-to-\$0.03/sh. apiece to cash flow.

IPS initially acquired four centers with 541,812 sq. ft., currently 94.2% occupied, at a price of \$23.97 mil., or \$44.33 per SF. The centers were all acquired from unaffiliated sellers, and the purchase price was 92.9% of the \$25.8 million appraised value. The four centers with their location, size and purchase price are: Germantown, Jasper, IN, 203,806SF, \$54.25/SF; Macon Pl., Lafayette, TN, 86,669 SF, \$41.17/SF; Rivergate, Shelbyville, IN, 108,324 SF, \$43.42/SF; Town West, Paragould, AR, 143,013 SF, \$32.89/SF.

Advice: Affiliation with troubled Johnstown American Cos. (now controlled by Southmark Corp.) has hurt market performance. **With payout apparently secure, buy shares below book value.**

OpEPS/OpCFS/Div. - B (Dec. yrs.):

Year	EPS	CFS	Div.	Price*	Yld.	Range
1987A	0.29a	0.41a	0.43	20'1-15'0	2	- 3%
1988E	1.00	1.44	1.40	18'1-10'6	z8	-13

a-Partnership began operations 9/87.

*Hi-Lo in 8ths. z-To date. (MJH)

Finances - A: IPS has no debt and equity of \$36.71 mil. or \$18.36 per unit. **Address:** 5775 Peachtree Dunwoody Rd., Atlanta, GA 30342. (404) 252-8780.

AMERICAN REAL ESTATE PARTNERS, L.P.

\$16.00 (ACP-NYSE) Div. \$2.00 Yld. 12.5%
14.79 mil. units. **RANK B**

ACP, affiliated with Integrated Resources, Inc. (IRE:NYSE), is a roll-up of 13 American Property Investors limited partnerships originated by IRE.

Gut Issue: How to spice-up the real estate equivalent of a bond portfolio? This is especially of concern as interest rates go up. Substantially all of ACP's properties are net-leased to single tenants under long-term leases, creating stable and predictable gross revenues, but producing very little added value. ACP has attempted to address this concern by repurchasing units and dramatizing the hidden value in its portfolio thru selective disposition of property. As of May, 1988 ACP repurchased 110,100 units at an aggregate cost of approx. \$1.69 mil. or \$15.35/un. ACP has realized net sale gains of approx. \$3.7 mil. or \$0.25/un.

ACP appears loath to irk the IRS and advertise its most appealing feature which is high tax-free yield, a remnant of the tax-sheltered income of the original partnerships. Approx. 44% of ACP's \$2.00 payout is non-taxable resulting in a 10.5% after-tax return for an investor in the 28% bracket.

ACP's properties have \$508 mil. in gross value and 41 mortgages on properties sold carried at \$34 mil. Properties are 33% retail, 28% office, 13% industrial, and 26% other.

Advice: Units have fallen 20% from offer price, boosting return. **Units are a long-term buy for investors looking to shelter income;** a high yielding alternative to municipal bonds with potential for appreciation.

OpEPS/OpCFS/Div. - B (Dec. yrs.):

Year	EPS	CFS	Div.	Price*	Yld.	Range
1987A	1.66a	1.72a	1.50	17'4-12'4	9	-12%
1988E	1.80b	2.00b	2.00	16'4-14'5	z12	-14

*Hi-Lo in 8ths. z-To date.

a--sale gains: '87-.05; '88E-.10. Began oper. 7/87.

Finances - C: Debt of \$259.8 mil. is 1.0 times equity of 258.4 mil. or \$17.47/un. Debt is almost all non-recourse mortgage with an average rate of about 10.4% and payments at a 12.9% constant. **Address:** 666 Third Ave., New York, NY 10017. (212) 551-6000. (MJH)

CAL FED INCOME PARTNERS L.P.

\$6.63 (CFI:NYSE) Div. \$1.00 Yld. 15.1%
12.73 mil. un. **RANK C**

CFI came public Nov. 20, 1986, selling 11.0 mil. limited partnership units at \$10. Its sponsor is Calif. Federal S&L Assoc., the fourth largest S&L.

Gut Issue: Will CFI maintain its distribution? Cash flow is insufficient to support current payout and it appears that this will not soon change. CFI must reduce its G&A expenses, which are running almost twice 1987's level (not including \$933,000 in expenses incurred on the defunct attempt to acquire Wells Fargo Mortgage & Equity Trust's real estate portfolio during the Mar. quarter. CFI must also reduce its interest expense on property debt or increase its use of zero coupon financing, freeing up cash. CFI is using high yielding mortgage participations to acquire additional real estate by rolling its bank line.

Total invested assets at June 30, of \$202 mil. consist of \$140.9 mil. (70%) real estate and \$61.2 mil. (30%) mortgage participations. Mortgage participation returned \$0.72/un. or 10.3% on investment in 1987 while direct investments brought in \$0.46/un., a ROI of 4.8%. Real estate investment's return in '88 has shown a great improvement at 7.7% (slightly below actual, since net real estate investment at June 30, includes assets acquired during period that did not earn for the full period).

In Feb., 1988, CFI acquired the 96% occ., Sammamish View apartment complex in Bellevue, WA for \$10.2 mil. and the 100% occ., Westlake Renaissance Court office building in Westlake Village, CA for \$12.342 mil. using \$21.9 mil. in variable bank-line debt with Cal Fed.

Advice: We avoid units on potential for dividend cut.

OpEPS/OpCFS/Div. - C (Dec. yrs.):

Year	EPS	CFS	Div.	Price*	Yld.	Range
1986A	0.03a	0.09a	0.08	10'7-	9'7	NM %
1987A	0.19	0.84	1.00	10'6-	6'0	17- 9
1988E	d.14	0.76	0.85	8'2-	6'4	z13-10

2Yr.Gr. -9.5% -15.0% *Hi-Lo in 8ths.

a-Began oper. Sept. 22. z-To date.

Finances - C: Debt of \$100 mil. is 0.97 times partners capital of \$103 mil. or \$8.06/un. **Address:** 5670 Wilshire, Suite 940, Los Angeles, Cal. 90036. 213/932-4196. (MJH)

EQUITABLE R.E. SHOPPING CENTERS L.P.

\$9.13 (EQM-NYSE) Div. \$1.04 Yld. 11.4%
10.7 mil. units **RANK: NONE**

EQM is an MLP that owns interests in two regional malls with a total of 719,000 sq. ft. net leasable space. Fee interest in the malls was purchased from Equitable Life Assurance Society in Dec. 1986 for \$130.5 mil.

Brookdale is a 990,000 sq. ft. mall located in Brooklyn Center, Minn., five miles northwest of downtown Minneapolis. EQM owns 213,600 square feet of net leaseable space, with the balance controlled by anchor tenants Sears, Dayton's, Donaldson's and J.C. Penney. The second property is Northland Center in Southfield, Mich., a Detroit suburb. EQM owns 844,000 sq. ft. of Northfield's 1.65 mil. sq. ft.. The rest is owned by anchors Hudson's and J.C. Penney.

Gut issue: Should you fear EQM's zero-coupon financing? EQM issued 10.2% zero-coupon notes worth \$40.9 mil. When the notes mature in Sept. 1995, EQM's payoff will be \$95.2 mil. G.P. Shearson Lehman Hutton Inc. plans to sell the malls before the it's time to pay off.

Year-end appraisals estimated the value of two malls increased 11.2% to \$145 mil. since EQM's purchase. We'd all like that kind of appreciation every year, but we worry that a lousy year will eat away at the equity in zero-coupon financed assets. EQM's equity stands at \$8.39/unit, LT debt at \$4.33/unit

Recent Activity: Each mall has added a MainStreet department store. Brookdale's store opened in August, Northland's in the spring. The chain is up for sale by parent Federated Department Stores. The stores are detached from the main malls.

Advice: If you like regional malls as much as we do, EQM is a good play. Cash flow is covering distributions, which have been boosted to 26¢ quarterly. Look at other mall LPs and REITs to diversify regionally. Consider selling far in advance of the zeros' maturity.

EPS/CFS/Dividends Dec. years.

Op.	EPS	CFS	Div.	Price	Yld.
1987	0.32	1.11	\$1.00	10'7-6'7	9-15
1988E			\$1.04	9'2-8'6	11-12

Address: Amer. Express Twr., 12th Fl., World Fincl. Ctr., New York, NY 10285. 212-298-4500. (JMH)

LA QUINTA MOTOR INNS L.P.

\$14.25 (NYSE--LQP) Div. \$2 Yld. 14.0%
3.98 mil. units **RANK: NONE**

LQP is a master limited partnership which owns 31 Spanish-decor motels managed by the sponsor, La Quinta Motor Inns, Inc. (LQM:NYSE). LQP operates 3,681 rooms an average of 10 yrs. old.

Can LQP sustain its \$2 distributions through 1989? The 14% yield is thick but cash flow is far from covering payouts in this two-year-old partnership. General partner LQM currently guarantees dividends, but after Oct. 1989 LQP investors are on their own.

Recent activity: **LQP's cash flow is off almost 40%.** Six month cash flow is just 43¢, versus 71¢ last year. Revenue rose 2.8% to \$18 mil. Reserves for capital improvements were boosted from 3% of gross revenue to 5% and repair and maintenance is up sharply. In April, LQP projected cash flow of \$1.14/unit, but even that gloomy forecast may be too optimistic.

Occupancy is up. During the June qtr., occupancy rose 1.6 points to 71.8%. The summer looks strong, with avg. June/July occupancy up 4-5 points with some Tex. inns strong. The average 2nd qtr. room rate held at \$35.94.

Advice: Stay away. Cash flow will have to almost double to meet fourth qtr. 1989 distributions. Many LQP inns are in rebounding but still-tight South-western markets. A 15-25% 1989 payout cut is a reasonable bet. (JMH)

EPS/CFS/Dividends (Dec. yrs.):

Op.	EPS	CFS	Div.	Price	Yld.
1986a	(.09)	.11	.84	19'7-17'6	2-2%
1987	(.01)	1.56	2.00	19'2-10'6	10-19
1988E	NE	NE	2.00	15'4-13'1	13-15

a-5 months. **Address:** 10010 San Pedro, San Antonio, TX 78216. (512) 366-6030.

NATIONAL REALTY L.P.

\$3.00 (NLP: ASE) Div. \$.32 Yld. 10.7%
45.02 mil. un. **RANK: NONE**

NLP suffers from bad blood sparked by Southmark Corp.'s (SM:NYSE) October 1987 roll-up of 39 real estate partnerships. Anguished screams -- and two unitholder suits -- from investors in good partnerships that got rolled up with the bad and poor cash flow have pushed NLP's units to as low as \$2 1/8 rather than the \$10 appraised value SM

touted beforehand.

Gut Issue: If NLP is so dismal, why is nearly-crippled SM (RSR, April 22) spending scarce cash to buy NLP units? (SM bought 914,000 units at \$3 in July and wanted 3.5 mil. more). SM execs see what we see: NLP's price is so low that its portfolio becomes a cheap buy.

-- NLP's apartment holdings -- 73% of its total real estate -- are dominated by Midwest and healthy Sun Belt markets, not in the Oil Patch. Of the 18,000 units, 26% are in Tex., Okla. and other oil states. But 37% are in states like Ill. and Mo. and 30% in markets like Calif., Ga and Fla. Apartments compose 72.7% of NLP's real estate; offices 14.7%; small retail 12.6%.

--**The current market value of NLP's partnership units puts a huge discount on those properties.** At \$3/unit NLP's housing is priced at less than \$5,500 a dwelling unit; offices at \$18.43/sq.ft. and retail space at \$13.19/sq.ft.

--The market is capitalizing NLP's net operating income at 30%, far more than is reasonable. SM's outside appraisers used a cap rate of roughly 9.3% to reach their \$10/unit valuation, which may be unreasonably low. At a 15% cap rate, one we're comfortable with, NLP shares would be worth about \$6 1/4.

--**Unitholder suits are bad for SM but good for NLP.** Two California LP trading firms are seeking roughly \$200 mil. damages from SM and several affiliates for breach of duty. But one goal is to force liquidation of the properties from the "good" partnerships that were rolled up. That money would be distributed to all NLP limited partners.

Advice: What you get for \$3 per unit is a 10.7% yield and a large, cheap portfolio diversified by product and region that is undervalued by Wall Street. Thankfully, we were not investors in the good partnerships that suffered in the roll-up. **But now is the time to buy in.**

EPS/CFS/Dividends (Dec. yrs.):

Yr.	Op.	EPS	CFS	Div.	Price*	Yld.	Range
1987	(.67)	(.41)	.18	\$3	-4'7	16-10	
1988E	NE	NE	.32	\$2'1-4	15-8		

Finances: Debt of \$323 mil. is 12 times \$26 mil. equity at cost. **Address:** 13800 Montfort Dr., Suite 200, Dallas, Tex. 75420. (214) 960-9383. (JMH)

RED LION INNS L.P.

\$15 RED-ASE Div. \$2.05 Yld. 13.7%

4.6 mil. shares RANK NONE

RED is 16-month old master limited partnership that owns 10 mid-priced hotels. The properties were spun off by general partner Red Lion Inns Corp. The hotel developer was taken private by LBO gourmand Kohlberg Kravis Roberts & Co. in 1985. The entire Red Lion chain includes 53 hotels located in major Western markets.

Gut Issue: When will the Colorado Springs hotel turn around? The 300-room property was the cash-flow dog of the RED package. Opened in December 1986, the inn's occupancy stuck in the 50% range during its first year of operation, much less than expected.

Colorado Springs' troubles accounted for 98% of RED's 28% drop in pro forma gross operating income for calendar 1987, to \$7.5 mil. (Gross OI for the hotels kept by the GP, however, increased 14%.)

Recent Activity: June qtr. cash flow covered distributions for the first time RED generated \$2.7 mil. in cash or 58¢/unit, enough to pay the 51 1/4¢ dividend. But six month CFS fell short at \$3.9 mil., just 84¢/unit. The GP financed 22¢/unit (zero interest) to meet Mar. qtr. payouts, traditionally the weakest period. September qtr. CFS should meet dividend needs, but RED may have to turn to the GP again in the slow Dec. qtr. RED has \$2.2 mil. left in a 0% interest \$4 mil. credit line for distributions through Apr. 1990.

Recent operations are strong. Same-period occupancy for the June qtr. increased 3.6 points to 72%. RED's average room rate rose 7.5% to \$58.90. March qtr. rates rose 6% to \$58.12, and occupancy increased 3 points to 61.5%

Advice: Hold, but don't buy. We're keeping a cautious, but positive attitude. We like RED, but cash flow is still erratic. Fortunately, RED's \$105 mil. mortgage is fixed at 9% so rising interest rates aren't hazardous. (JMH)

EPS/CFS/Dividends		Dec. years.	
Op.	EPS CFS Div.	Price	Yld.
1987a	(.09) .94 2.05	19'6-11	10-18
1988E		2.00 16'4-13'2	12-15

a-8 months. **Address:** 4001 Main St., Vancouver, WA 98663 (206) 696-0001

SHOPCO LAUREL L.P.

\$9.25 LSC-ASE Div. \$1.05 Yld. 11.3%

4.66 mil. units RANK: NONE

LSC has but a single asset: Laurel Centre, a 660,500 sq. ft. regional mall in Laurel, Md. near Washington, D.C. anchored by J.C. Penney, Hecht's and Montgomery Ward department stores. The nine-year-old Laurel Centre is built on a 35.5-acre site. Shearson Lehman Hutton Inc. is LSC's general partner and plans to liquidate between 1994 and 1997.

Gut issue: Does LSC's zero-coupon debt make it too risky a buy? When it formed in April 1987, LSC financed the Laurel Centre purchase with a \$22.5 million 9.5-year zero-coupon note accreting at 10.2%. Zeros can be dangerous if the property appreciates too slowly. If Laurel Centre hits a bad year, the compounding interest can eat out a big chunk of LSC's equity in the property.

The payoff on LSC's zero is \$57.8 mil., 79% of the mall's \$72.5 mil. appraised value. LSC's equity stands at \$41 mil. or \$8.77/unit.

LSC owns 244,100 sq. ft. of mall space and a 136,864 sq. ft. J.C. Penney store. LSC does not own the buildings for the two other anchors.

Will Laurel Centre appreciate 36% - 3.5% annually - by 1997 to both cover the zero and preserve the equity? Last year's \$4.8 mil. net operating income would have to reach \$6.4 mil. by LSC's appraiser's 6.6% capitalization rate and \$7.9 mil. by our more conservative 8% rate. Even the higher 5.7% annual growth rate we believe will be required isn't out of line.

Advice: Buy LSC for its yield. Zero-coupon debt is often a chancy gimmick, but the maturity date on LSC's loan is distant. When the payoff date is a few years away, that may be the time to get out to eliminate the payoff risk. Quarterly payments have been bumped by a penny twice, so we expect an 11.7% yield. As interest rates rise, we don't expect to stock to appreciate much. (JMH)

EPS/CFS/Dividends		Dec. years.	
Op.	EPS CFS Div.	Price	Yld.
1987a	0.16 0.69 0.72	10'1-5'6	11-20
1988E		1.08 9'7-7'4	11-15

a-divs. for 7 1/2 months **Address:** Amer. Express Twr., 12th Fl., World Fincl. Ctr., New York, NY 10285. 212-298-4500